

Message Text

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PAGE 01 SEOUL 09288 021057Z
ACTION EA-12

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STADIS//////////

E.O. 11652: N/A
TAGS: ECON BENC KS
SUBJ: HYUNDAI INTERNATIONAL PROJECT GUARANTEES

REF: (A) STATE 255658, (B) SEOUL 9174, (C) SEOUL 8769

1. EMBASSY IS GRATIFIED THAT AN AMERICAN FIRM HAS THE INSIDE TRACK ON THE HYUNDAI CAPROLACTAM PLANT PROJECT AND THAT U.S. EXIMBANK IS WILLING TO SUPPORT IT.

2. HOWEVER, AS REPORTED REFTTEL (C) WE BELIEVE THAT CONTINUED EXIMBANK INSISTENCE ON A "REPUBLIC OF KOREA" GUARANTEE FOR THE HYUNDAI MACHINERY PLANT PROJECT WILL CAUSE EPB TO WITHDRAW IT FROM THE PRIORITY LIST. WITHDRAWAL POSES PROBLEMS FOR FIRMS SUCH AS P & H HARNISCHFEGGER WHICH HAVE VIRTUALLY "SOLD" EQUIPMENT TO HYUNDAI FOR THAT PLANT BUT WILL LOSE THOSE SALES IF IT HAS TO TURN TO BRITISH, FRDNCH, GERMAN OR JAPANESE FINANCING. WE ARE DISTRESSED THAT U.S. EXIMBANK MAY BE OVERLOOKING THE POINT THAT THIS PROJECT IS PRECISELY OF THE KIND OF TRANSACTION THAT IS EXIM'S "RAISON D'ETRE."

3. ECONCOUNS AND EMBOFFS HAVE PERSONALLY ATTEMPTED UNSUCCESSFULLY TO CONVINCE EXIMBANK REPS. DURING THEIR VISITS THAT DISTINCTIONS BETWEEN "ROK" (EPB) VS. KEB OR KDB GUARANTEES
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ARE ONLY TECHNICAL BECAUSE ALL ENJOY THE FULL FAITH AND BACKING OF THE ROKG AND ARE PART OF IT. EPB QUITE REASONABLY REFUSES TO DELAY OR PILLORY ORDINARY PRIVATE LENDING BY THROWING IT INTO THE POLITICAL ARENA WHICH IS PARTICULARLY VICIOUS THIS SESSION. IT HAS ASKED COUNSELOR KANG TO TRY TO NEGOTIATE THE ISSUE WITH EXIMBANK.

4. ACTUALLY, THE WORLD BANK LOAN OF \$80 MILLION FOR THE SAME MACHINERY PLANT WAS A TWO STEP TRANSACTION; THE BORROWER IS THE GOVERNMENT OF KOREA ON WHICH THE BANK HAS ITS LIEN. A SEPARATE PROJECT AGREEMENT SETS OUT THE CONDITIONS UNDER WHICH IT HAS ALLOWED THE ROKG TO TURN OVER THE PROCEEDS. IT IS CLEAR FROM THE LOAN AGREEMENT THAT WORLD BANK HAS NO REPEAT NO CLAIM ON HYUNDAI, THEREFORE FOR U.S. EXIMBANK TO CONSIDER THAT ANY LIEN IT MAY ESTABLISH WOULD BE "INFERIOR" IS TECHNICALLY INCORRECT.

5. ACTION REQUESTED: THAT DEPARTMENT TAKE OPPORTUNITY TO ASSIST ROKG IN RESOLVING EXIMBANK'S TECHNICAL DIFFICULTIES.
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